



Arkansas

State Revenue Tax Quarterly

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Included in this Issue

Office of Income Tax Administration: S Corporations Other Income Tax News	Page 1
New Rules	Page 2
Office of Excise Tax Administration: Consumer Use Tax Sales Tax Tip	Page 3
Calendar of Due Dates	Page 4
Changes in Sales & Use Tax	Page 4
Internet Information	Page 4

OFFICE OF INCOME TAX ADMINISTRATION



S Corporations

Beginning January 2006, the Arkansas Subchapter S Election Form AR1103 will be obtained from and submitted to the Corporation Tax Section. To obtain the form, please:

1. Download it from the Department of Finance and Administration's website:
http://www.arkansas.gov/dfa/income_tax/tax_corp_business_forms.html.
2. Call (501) 682-4775; or
3. Send an e-mail to:
corporation.income@rev.state

Submit Form AR1103 to the following address:

Corporation Income Tax Section
P. O. Box 919
Little Rock, AR 72203-0919



Arkansas has not adopted the income tax provisions contained in the federal economic stimulus bills Congress passed on March 8, 2002, and May 28, 2003. Therefore, Arkansas income tax returns must be filed using depreciation and expensing of property provisions found in Sections 167, 168, 179, and 179A of the Internal Revenue Code of 1986, as in effect on January 1, 1999. The Arkansas first year expense deduction is limited to \$25,000 for tax years beginning on or after January 1, 2003.

Arkansas has not adopted the Production Activities Deduction referenced in Internal Revenue Code 1999, which is effective for tax years beginning after 2004 on the taxpayer's federal income tax return.

Other Income Tax News

Individual Income tax – non-filer notices for the years 2002 and 2003 were mailed to taxpayers.

When completing income tax forms for 2005, remember these items:

- ◆ 3% Income tax surcharge was repealed.
- ◆ Exemption Military Pay for enlisted personnel increased from \$6,000 to \$9,000.
- ◆ Refunds for taxpayers owing other agencies money may have the refund withheld to satisfy the debt.

More information can be found in the individual income tax instructions which were mailed early this year. They are also available on the Individual Income Tax web page:

http://www.arkansas.gov/dfa/income_tax/tax_agency.html#2

If state tax forms are needed from other states, please go to the website, www.taxadmin.org/fta/link/forms.html.

New Rules

Rule 2006-1

Rule 2006-1: “Standard Mileage Rates for Income Tax Purposes.” This rule decreases the standard mileage rates from the last months in 2005. The new rates for 2006 are as follows:

- 44.5¢ for employees or self-employed individuals;
- 18¢ for transportation expenses deductible as medical or moving expense;
- 14¢ for individuals in computing the income tax deduction for charitable organizations.

This rule adopts the IRS standard mileage rate for business use of a vehicle by a rural mail carrier.

Rates that were effective for the period 09/01/05 through 12/31/05 were as follows:

- 48.5¢ for employees or self-employed individuals;
- 22¢ for transportation expenses deductible as medical or moving expense;
- 14¢ for individuals in computing the income tax deduction for charitable organizations.

Rates that were effective for the period 01/01/05 through 08/31/05 were as follows:

- 40.5¢ for employees or self-employed individuals
- 15¢ for transportation expenses deductible as medical or moving expense;
- 14¢ for individuals in computing the income tax deduction for charitable organizations

Rules 2006-2 and 2006-3

Two new income tax rules are currently being drafted by the Department of Finance and Administration. Rule 2006-2 will be promulgated to implement the provisions of *Act 2187 of 2005*. Under *Act 2187*, the income tax exemption for the service pay and allowances of enlisted military personnel increased from \$6,000 to \$9,000 per year beginning with the 2005 tax year. However, the exemption for the service pay and allowances of military officers was not increased by *Act 2187* and remains set at \$6,000 per year. The rule will feature an example of how to prorate the two different exemptions for taxpayers that receive both enlisted pay and officer pay during the same year.

Rule 2006-3 will be promulgated to implement the provisions of *Act 1982 of 2005*. Under *Act 1982*, a pass-through entity that distributes income to a non-resident member will generally be required to withhold and remit Arkansas income tax from the member's taxable Arkansas source income beginning with the 2006 tax year. Common forms of pass-through entities are “Subchapter S” corporations, partnerships and limited liability companies. In lieu of withholding by

the pass-through entity, a non-resident member may elect to submit to the personal jurisdiction of the Department and assume responsibility for reporting and remitting any Arkansas income tax due on the distributions received by the member. Act 1982 also authorizes a pass-through entity to use a composite or block return to report and remit withholding tax on its members.

Rules 2006-2 and 2006-3 will most likely be promulgated during the first or second quarter of 2006.

For a list of all current Revenue Division Rules and Proposed Rules, go to the new DFA link at:

http://www.arkansas.gov/dfa/rules/dfa_revenue_rules.html

The Rules (Regulations) can also be accessed on the first page of the Department of Finance and Administration's webpage located in the "Most Requested Links" section: www.arkansas.gov/dfa

Office of Excise Tax Administration

Consumer Use Tax

What a deal! I did all of my Christmas shopping on line this year. I saved a lot of time and did not have to pay shipping **or sales tax**.

This statement is incorrect! When purchases are made from an out-of-state vendor, either from a catalog or over the internet, consumer use tax is due if you did not pay sales tax to the vendor.

Consumer use tax is a tax similar to the sales tax consumers pay when purchasing items at a grocery store or any local store. The major difference between sales tax and consumer use tax is consumer use tax is paid on items purchased from out-of-state vendors who are not required by law to collect the Arkansas tax. **Consumers** in the State of Arkansas are responsible for reporting consumer use tax directly to the State of Arkansas themselves. The tax rate is the same as the sales tax rate – 6% plus the city and county tax where the merchandise was delivered – and it is computed on the total purchase price of the items including shipping and handling charges.

To assist individual consumers in complying with the law, the Sales and Use Tax Section makes available the Individual Consumer Use Tax Form. The form can be found in the annual Individual Income Tax booklet or can be downloaded from the Sales Tax website. Also available on the website is a list of cities and counties with local taxes to assist in computing the local tax portion.

If you have questions concerning consumer use tax, please call 682-1895 or visit the Sales and Use Tax Section website at: http://www.arkansas.gov/dfa/excise_tax_v2/st_index.html.

Sales Tax Tip: The services of cleaning and janitorial work are generally taxable; however, the Department of Finance and Administration has determined that chimney cleaning falls outside the scope of cleaning services, and chimney cleaning is not subject to state or local Arkansas sales tax.

Calendar of Due Dates

01/13/06—4th Qtr. Individual estimated income tax (Based on calendar year filer) (EFT filers only); Employee monthly W/H tax, for prior month (EFT filers only);

01/17/06—4th Qtr. Individual estimated income tax (Based on calendar year filer); Employee monthly W/H tax, for prior month; Miscellaneous tax (except Severance taxes)

01/20/06—Sales & Use Tax

01/25/06—Motor fuel tax (except IFTA); Severance tax;

01/31/06—Employee withholding tax report for prior year (Annual filer only); IFTA

02/14/06—Employee monthly W/H tax, for prior month (EFT filers only)

02/15/06—Employee monthly W/H tax, for prior month; Miscellaneous tax (except Severance taxes)

02/21/06—Sales & Use Tax

02/27/06—Motor fuel tax (except IFTA); Severance tax;

02/28/06—**Employer's Annual Reconciliation of Income Tax Withheld (Including W-2's & 1099's)**

03/14/06—Employee monthly W/H tax, for prior month (EFT filers only);

03/15/06—Employee monthly W/H tax, for prior month; AR income tax returns ("C" or "S" corporation, check the box partnership, LLC) (Based on calendar year filers; return due date 2½ months after end of tax year.); Miscellaneous tax (except Severance taxes)

03/20/06—Sales & Use Tax

03/27/06—Motor fuel tax (except IFTA); Severance tax

04/14/06—Employee monthly W/H tax, for prior month (EFT filers only); 1st Qtr. estimated income tax (based on calendar year filer) (EFT filers only)

04/17/06—Employee monthly W/H tax, for prior month; **AR income tax returns** (partnership, LLC, individual) (Based on calendar year filers; return due date 3½ months after end of tax year.); 1st Qtr. estimated income tax (based on calendar year filer); Miscellaneous tax (except Severance taxes)

04/20/06—Sales & Use Tax

04/25/06—Motor fuel tax (except IFTA); Severance tax

CHANGES IN SALES & USE TAX

Please Call (501) 682-7104 For Periodic Updates

Regarding Local Sales and Use Taxes

http://www.arkansas.gov/dfa/excise_tax_v2/st_index.html

Name	Code	Effective Date	%	Recent Action
Alpena	05-02	01/01/06	1.00	Enacted
Dermott	09-03	02/01/06	2.00	Decrease
Prairie Grove	72-09	01/01/06	2.25	Increased
Sevier County	66-00	01/01/06	2.375	Increase
Sharp County	67-00	01/01/06	1.00	Decrease
Union County	70-00	01/01/06	2.00	Decrease
Yell County	75-00	01/01/06	1.00	Enacted

Internet Information

Business and Personal Tax Page

http://www.arkansas.gov/dfa/dfa_taxes.html

Telephone Information

Corporate Income Tax	(501) 682-4775
Taxpayer Assistance for Individual Income Tax	(501) 682-1100 1-800-882-9275
Automated Refund Inquiry & Tele-tax Information	(501) 682-0200 1-800-438-1992
Sales and Use Tax	501-682-1895
Taxpayer Assistance Office	501-682-7751

The **Arkansas State Revenue Tax Quarterly** is a publication of the Taxpayer Assistance Office. The newsletter is produced and distributed electronically to tax professionals, businesses, and organizations operating in Arkansas. To be added or deleted from the e-mail list, contact Jan Moore, phone (501) 682-7751, write to Taxpayer Assistance Office, Ledbetter Building, Room 2460, 1800 W. Seventh, P. O. Box 1272, Little Rock, Arkansas 72203-1272, or send an e-mail to jan.moore@rev.state.ar.us.